



# Excise Tax Advisory

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## **Alternative credit computation formula Seasonal employment manufacturers**

Chapter 82.62 RCW provides business and occupation (B&O) tax credits to persons:

- Engaged in manufacturing, commercial testing, or research and development activities;
- In an eligible area at a specific facility; and
- Increased their employment positions at the same facility by 15% or more over the previous calendar year.

This Excise Tax Advisory explains how an employer, who regularly operates only on a seasonal basis, and who hires more than 50% of its employees on a seasonal basis, determines if the 15% employment increase requirement to receive the credit has been met. See WAC 458-20-240 (Manufacturer's new employee tax credits) for more information regarding the B&O tax credits provided by chapter 82.62 RCW.

This alternative computation method is exclusively available for seasonal employers. Seasonal employers may not include part-time employees, who work less than 35 hours a week, in their computations, in order to meet the 15% employment increase threshold test or to determine the amount of tax credit entitlements. Full-time employees are treated as working 35 hours a week, for the purpose of this alternative computation method, even if such employees work more than 35 hours a week.

Seasonal employers, who otherwise qualify for the tax credit, may begin using such credit, when their total hours of employment during the credit year (year in which credit is claimed) exceed total hours of employment during the preceding year by more than 15%.

Seasonal employers compute the total hours of employment during the credit year or during the preceding year in the following manner:

$(\text{Number of seasonal employees} \times \text{number of weeks} \times 35 \text{ hours}) + (\text{number of full time employees} \times 1,820 \text{ hours}) = \text{total hours of employment in a given year.}$

To qualify for the tax credit, the total hours of employment at the credit year must be equal to or greater than 1.15 times the total hours of employment at the preceding year. Two thousand dollars or four thousand dollars of tax credit (depending on if the annual wages and benefits of the qualified employment position is equal to \$40,000 or less, or exceeds \$40,000, respectively) may be used for

every unit of 1,820 hours by which the hours worked in credit year exceeds the hours worked in preceding year. Fractional unit of 1,820 hours does not qualify for any credit.

**Example 1:** Applicant is a shake mill, which employed four full-time employees year round and ten seasonal employees for 26 weeks during Year 1 (preceding year). During Year 2 (credit year), Applicant anticipates hiring five additional seasonal employees, with wages and benefits of less than \$40,000 per year, and operating the mill for 30 weeks during Year 2.

The total hours of employment in Year 1 are 16,380 hours.

$$9,100 \text{ hours (10 seasonal employees} \times 26 \text{ weeks} \times 35 \text{ hours)} + 7,280 \text{ hours (4 full-time employees} \times 1,820 \text{ hours)} = 16,380 \text{ total hours of employment}$$

Thus, in order to meet the 15% threshold test, Applicant must increase its total hours of employment in Year 2 to 18,837 hours ( $1.15 \times 16,380$ ).

The anticipated total hours of employment in Year 2 are 23,030 hours.

$$15,750 \text{ hours (15 seasonal employees} \times 30 \text{ weeks} \times 35 \text{ hours)} + 7,280 \text{ hours (4 full-time employees} \times 1,820 \text{ hours)} = 23,030 \text{ total hours of employment}$$

The increased employment in Year 2 is greater than 15%. Once the 15% employment increase is satisfied, Applicant is entitled to \$2,000 in B&O tax credit for each 1,820 hours in excess of 16,380 that are actually worked during Year 2.

In this case, if the anticipated hiring is actually achieved, Applicant will be entitled to receive B&O tax credit for 3 new full-time equivalent (FTE) positions or \$6,000.

$$6,650 \text{ hours (23,030 total hours of employment in Year 2 - 16,380 total hours of employment in Year 1)} / 1,820 \text{ hours} = 3.65 \text{ FTE positions}$$

Only 3 FTE positions qualify for the B&O tax credit; no credit is available for the remaining fractional part of 1 FTE.

An issue arises when seasonal employees are entitled to different wages and benefits, and some of them earn more than \$40,000 in annualized figures while some of them earn \$40,000 or less in annualized figures. In such cases, whether applicants are entitled to \$2,000 or \$4,000 in B&O tax credit for each new FTE position created should be based on the average of actual wages and benefits of the additional seasonal employees in proportion to new FTE positions created, including any fractional part of an FTE.

**Example 2:** Applicant is a shake mill, which employed four full-time employees year round and ten seasonal employees for 26 weeks during Year 1 (preceding year). During Year 2 (credit year), Applicant anticipates hiring two additional seasonal employees for 26 weeks and three more for 20 weeks. The five additional seasonal employees receive the following wages and benefits in Year 2: A = \$22,000, B = \$18,000, C = \$16,000, D = \$13,000 and E = \$12,000.

The total hours of employment in Year 1 are 16,380 hours.

$9,100 \text{ hours (10 seasonal employees} \times 26 \text{ weeks} \times 35 \text{ hours)} + 7,280 \text{ hours (4 full-time employees} \times 1,820 \text{ hours)} = 16,380 \text{ total hours of employment}$

Thus, in order to meet the 15% threshold test, Applicant must increase its total hours of employment in Year 2 to 18,837 hours ( $1.15 \times 16,380$ ).

The anticipated total hours of employment in Year 2 are 20,300 hours.

$13,020 \text{ hours ((12 seasonal employees} \times 26 \text{ weeks} \times 35 \text{ hours)} + (3 \text{ seasonal employees} \times 20 \text{ weeks} \times 35 \text{ hours})) + 7,280 \text{ hours (4 full-time employees} \times 1,820 \text{ hours)} = 20,300 \text{ total hours of employment}$

The increased employment in Year 2 is greater than 15%. Once the 15% employment increase is satisfied, Applicant is entitled to \$2,000 or \$4,000 in B&O tax credit for each 1,820 hours in excess of 16,380 that are actually worked during Year 2.

In this case, if the anticipated hiring is actually achieved, Applicant will be entitled to receive B&O tax credit for 2 new full-time equivalent (FTE) positions.

$3,920 \text{ hours (20,300 total hours of employment in Year 2 - 16,380 total hours of employment in Year 1)} / 1,820 \text{ hours} = 2.15 \text{ FTE positions}$

Only 2 FTE positions qualify for the B&O tax credit; no credit is available for the remaining fractional part of 1 FTE.

The only remaining question is whether Applicant is entitled to \$2,000 or \$4,000 B&O tax credit for its 2 new FTE positions. This depends on the average of actual wages and benefits of the five additional seasonal employees in proportion to the new FTE positions created, including any fractional part of an FTE.

$\$81,000 \text{ in actual wages and benefits } (\$22,000 \text{ for A} + \$18,000 \text{ for B} + \$16,000 \text{ for C} + \$13,000 \text{ for D} + \$12,000 \text{ for E}) / 2.15 \text{ FTE positions} = \$37,674$

This figure, \$37,674, is smaller than the \$40,000 in actual wages and benefits required for the \$4,000 B&O tax credit for each new FTE position. Therefore, Applicant only qualifies for \$2,000 in B&O tax credit for each FTE position. If the anticipated hiring is actually achieved, Applicant is entitled to \$4,000 in total B&O tax credit for the 2 new FTE positions created in Year 2.